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FEDERAL COMMUNICATIONS COMMISSION
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December 14, 1994

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

Re: CC Docket No. 92-296: Simplification of the Depreciation Prescription Process

Dear Mr. Caton:

Enclosed herewith for filing are the original and four (4) copies of MCI Telecommunications Corporation's Comments in the above-captioned proceeding.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

Elizabeth Dickerson

Elizabeth Dickerson
Manager, Federal Regulatory

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20054

In the Matter of	)	
	)	
Simplification of the	)	CC Docket No. 92-296
Depreciation Prescription	)	
Process	)	

REPLY COMMENTS

MCI Telecommunications Corporation ("MCI") hereby submits its reply to comments filed in response to the Further Order Inviting Comments the Commission released on October 11, 1994, in the above-captioned proceeding.[1] In its comments, MCI continued to support the Commission's adoption of the Basic Factor Range Option for simplification of depreciation for local exchange carriers ("LECs") and asserted that the ranges the Commission proposed for the eight plant accounts were reasonable. MCI urged the Commission to adopt the proposed ranges without any modification.

The National Association of Regulatory Utility Commissions ("NARUC") joins MCI in supporting the FCC's approach to providing administrative relief for the LECs as they update their depreciation rates. NARUC concurs that the ranges the Commission proposes appear to provide flexibility to the substantial

[1] Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Further Order Inviting Comments, Released October 11, 1994 ("Order").

majority of the carriers, thus enabling them to utilize the simplification process.[2] Although the United States Telephone Association ("USTA") and several of the individual LECs filing comments also advocated immediate adoption of these ranges,[3] their support is limited. These parties view approval of ranges for the last eight accounts merely as a temporary step in simplifying the depreciation prescription process,[4] and they continue to reiterate their support for the price cap plan that the Commission already has rejected.

In its comments, NARUC cautions the FCC "not to lose sight of its primary objective, i.e., simplification by making less burdensome the depreciation prescription process, rather than creating a process whereby the LECs might obtain unreasonable unjustified or arbitrary depreciation rates."[5] The LECs comments in this proceeding give credence to NARUC's admonition. They argue that the current methodology continues to be too burdensome[6] and that the ranges are too narrow for many LECs to avail themselves of what

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[2] Comments of NARUC, p. 4.

[3] See e.g., Comments of Bell Atlantic, p. 1; Comments of Southwestern Bell, p. 2; Comments of the Sprint LECs, p. 1; and Comments of USTA, p. 2.

[4] See e.g., Comments of Bell Atlantic, p. 4; Comments of Southwestern Bell, p. 2; and Comments of USTA, p. 2.

[5] Comments of NARUC, p. 5.

[6] See e.g., Comments of Bell Atlantic, p. 1; Comments of BellSouth, p. 2; and Comments of USTA, p. 3.

simplification the new process does offer.[7] Closer scrutiny of their remarks shows that the LECs are not advocating depreciation "simplification," but instead are pursuing depreciation "acceleration" that severs the link between their individual historical modernization trends and the level at which the Commission has permitted them to depreciate their investment. As NARUC notes,

> the intent of the simplification process ... is not to ignore reality and remove all objectivity by allowing a carrier to use the highest possible depreciation rate within the range. Rather, it is the responsibility of each carrier to propose the basic factors that match the capital consumption of its utility plant.[8]

The LECs' comments illustrate, however, that their goal is to achieve increased depreciation expense without regard for their actual investment patterns. Such a goal does not comport with the Commission's intention to continue to prescribe rates "that most accurately allocate plant costs to expense at a rate representative of the actual consumption of the plant."[9]

The LECs' pleadings run counter to this clearly articulated Commission goal. First, they inappropriately seek diminished regulatory scrutiny of their depreciation study requirements. Second, they urge the Commission to adopt a forward-looking method of calculating depreciation that has no bearing on the

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[7] See e.g., Comments of BellSouth, p. 4; and Comments of US WEST, p. 2.

[8] Comments of NARUC, p. 7.

[9] Simplification of the Depreciation Prescription Process, Notice of Proposed Rulemaking, 8 FCC Rcd 146, 148 (1992).

individual LEC's plant replacement programs. The Commission should not be persuaded by these arguments; it should continue its implementation of the Basic Range Factor of depreciation simplification that it has adopted.

Many LECs urge the Commission to abolish the remaining study requirements. Bell Atlantic, for example, recommends eliminating the "study requirement for companies moving an account into an approved range and ... the burdensome and unnecessary requirement to provide mortality analysis to support curve shapes for accounts in approved ranges."[10] USTA echoes this viewpoint: "[T]he Commission should eliminate the requirement that full study data is necessary for companies to adopt the ranges and eliminate the requirement to file mortality data."[11] The Sprint LECs -- in conflict with the Commission's statutory obligation under Section 220(b) of the Communications Act -- apparently seek total obliteration of regulatory oversight of the depreciation prescription process, by "recommend[ing] that the Commission adopt a process making depreciation the responsibility of the Price Cap Carriers."[12] It is not appropriate to reduce regulatory scrutiny at this time: the price cap model continues to embrace a sharing mechanism that the LECs could significantly manipulate without adequate Commission scrutiny, and

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[10] Comments of Bell Atlantic, p. 4.

[11] Comments of USTA, p. 3.

[12] Comments, of the Sprint LECs, p. 2.

contrary to BellSouth's belief,[13] neither has competition developed enough to restrain the LECs' behavior. As the Missouri Public Service Commission observes, absent periodic verification of LEC depreciation data, the LECs may fail to perform the necessary analyses to support their depreciation expense levels,[14] and the LECs may view the simplified process as carte blanche for them to choose whatever depreciation rates they want, and not at the level their historical consumption of plant merits. USTA predicts that

> [u]nless the ranges more accurately reflect the impact that technology and market pressures will have on exchange carrier investment, carriers will seek to utilize the lower end of the range, which <u>represents their best opportunity to depreciate their plant at a more realistic rate under the current process</u>.[15]

Such a statement suggests a lack of nexus between the carriers' actual asset replacement programs and their level of depreciation expense, in contradiction to the Commission's intention. As NARUC notes, the Report and Order in this docket "makes it quite clear that each carrier is responsible for assuring that its basic factors reflect their carrier's plans and operations."[16] The Commission must not let the LECs' claims of burden or need for regulatory parity divert it from its regulatory purpose.

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[13] Comments of BellSouth, p. 5.

[14] Comments of Missouri Public Service Commission, pp. 5-6.

[15] Comments of USTA, p. 3.

[16] Comments of NARUC, pp. 5-6.

For example, the LECs ague for ranges that reflect forward-looking life estimates, rather than the historical rate at which the LECs have been replacing their plant.[17] The Commission's objective in adopting simplified depreciation prescription procedures was to "simplify procedures and reduce [the] associated costs"[18] and not provide the LECs with a vehicle to accelerate their depreciation. The LECs inappropriately are trying to use the opportunity to revamp the philosophy underlying how the Commission proscribes rates.

If the LECs are replacing their plant at a rate that reflects the exploding technological change[19] or the dynamic nature of the telecommunications industry,[20] it will be reflected in their underlying studies that support a specific depreciation rate. MCI would not object to the Commission reviewing the reasonableness of ranges on an annual basis as Southwestern Bell wishes.[21] This would allow the ranges to reflect the most current investments that the LECs have made in new technologies. Also, if they wish further to accelerate the rate at which they depreciate obsolete plant, the LECs always have the option of writing off what they consider to be under-depreciated investment.

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[17] See e.g., Comments of Bell Atlantic, p. 2; Comments of BellSouth, p. 4; Comments of Pacific Companies, p. 5; Comments of Southwestern Bell, p. 4; and Comments of USTA, p. 3.

[18] Simplification of the Depreciation Prescription Process, Notice of Proposed Rulemaking, 8 FCC Rcd 146, 147 (1992).

[19] Comments of BellSouth, p. 5.

[20] Comments of Bell Atlantic, p. 2.

[21] Comments of Southwestern Bell, p. 7.

Bell Atlantic incorrectly compares the LECs to its competitors who it says "use market driven forward looking depreciation levels, and thereby avoid the burden of future write-offs."[22] Such a characterization disregards the numerous occasions on which cable, competitive access, and interexchange providers have taken significant write-offs historically, and passed the cost associated with obsolete equipment on to their shareholders and not their ratepayers.

The LEC arguments for forward looking life estimates disregard that they also have the option of writing off outdated investment. In fact,on their financial books: Bell Atlantic took a $2.15 billion charge in August, 1994; US WEST wrote off $3.2 billion fourteen months ago; and Ameritech has announced a 4th quarter write off of $2.25 billion "to reflect change in accounting methods as the company moves into competitive market and accelerates depreciation of plant and equipment."[23] If LECs are not satisfied with the Commission's method of calculating their depreciation rates, they certainly have the ability to write off those assets as truly competitive companies frequently do.

In sum, MCI supports the efforts the Commission has made to simplify the depreciation prescription process for the LECs and believes that it offers an appropriate balance between regulatory oversight and elimination of administrative burden. For the foregoing reasons, MCI urges the Commission

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[22] Comments of Bell Atlantic, p. 3.

[23] Communications Daily, Volume 14, No. 230, November 30, 1994.

to adopt the ranges as proposed and make no modifications to the manner in which it calculates LEC depreciation rates.

Respectfully submitted,
MCI TELECOMMUNICATIONS CORPORATION

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December 14, 1994

STATEMENT OF VERIFICATION

I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on December 14, 1994.

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CERTIFICATE OF SERVICE

I, Barbara Nowlin, do hereby certify that on this 14th day of December, 1994, copies of the foregoing MCI Reply Comments CC Docket 92-296 were served by first-class mail, postage prepaid, unless otherwise indicated to the parties on the attached list.

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